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Recent Developments in the Canadian Economy: Spring 2014

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- | | |
|----------------|--|
| . | not available for any reference period |
| ... | not available for a specific reference period |
| ... | not applicable |
| 0 | true zero or a value rounded to zero |
| 0 ^o | value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded |
| P | preliminary |
| r | revised |
| X | suppressed to meet the confidentiality requirements of the <i>Statistics Act</i> |
| E | use with caution |
| F | too unreliable to be published |
| * | significantly different from reference category ($p < 0.05$) |

Recent Developments in the Canadian Economy: Spring 2014

by Cyndi Bloskie and Guy Gellatly, Analytical Studies Branch

This article in the *Economic Insights* series provides users with an integrated summary of recent changes in output, employment, household demand, international trade and prices. Organized as a statistical summary of major indicators, the report is designed to inform about recent developments in the Canadian economy, highlighting major changes in the economic data during late 2013 and early 2014. Unless otherwise noted, the tabulations presented in this report are based on seasonally adjusted data available in CANSIM on March 18, 2014.

Overview

The pace of output and employment growth diverged in the second half of 2013, as the average annual growth rate in employment slowed to 1.1%, less than half the average annual increase in real output during this period. Employment growth virtually stalled in the second half of 2013, as the economy added 20,000 net jobs from July to December. Retail sales advanced in the second half of 2013 on sales of autos and gasoline, although severe winter storms dampened receipts in December. Ground-breaking on new homes accelerated slightly in the second half, before slowing late in the year. Manufacturing sales, led by non-durables, advanced in the second half of the year, despite a decline at year end. The merchandise trade deficit increased late in the year.

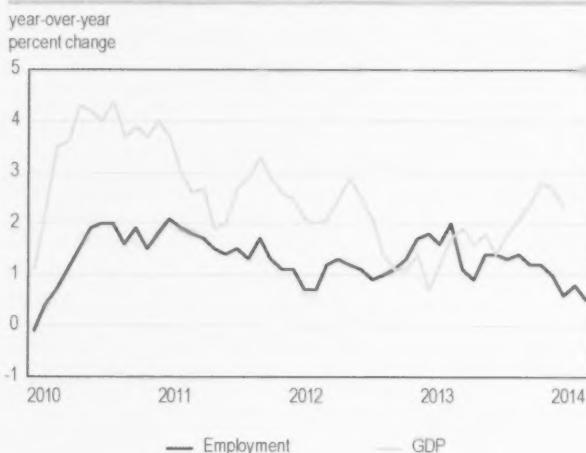
GDP advances on household spending and inventories

Real gross domestic product (GDP), measured on an expenditure basis, increased by 1.3% during the last half of 2013, advancing 0.7% in both the third and fourth quarters. This followed a 1.1% increase during the first half of the year.¹

Household expenditures were the main contributor to GDP growth during the last half of 2013. Household spending advanced 0.8% in the fourth quarter, following a 0.6% gain in the third. Spending on semi- and non-durable goods led recent gains.

Increases in inventories made large contributions to GDP growth in the second half of the year. Farm inventories expanded in the third quarter due to strong crop production in western Canada, while fourth quarter accumulations were led by durable goods, particularly for motor vehicles, and non-durables.

Chart 1
Output and employment



Source: Statistics Canada, CANSIM tables 282-0087, 379-0031.

Non-residential business investment weighed on growth in late 2013, as capital spending on plant and equipment contracted during the second half of the year. Spending on non-residential structures and machinery and equipment declined by 0.3% during this period, after a gain of 0.9% during the first half of 2013. Much of the decline in the second half of the year occurred during the fourth quarter, on lower investments in structures and intellectual property assets.

Residential investment increased by 0.8% in the second half of 2013. However, housing expenditures contracted late in 2013, declining by 0.6% in the fourth quarter.

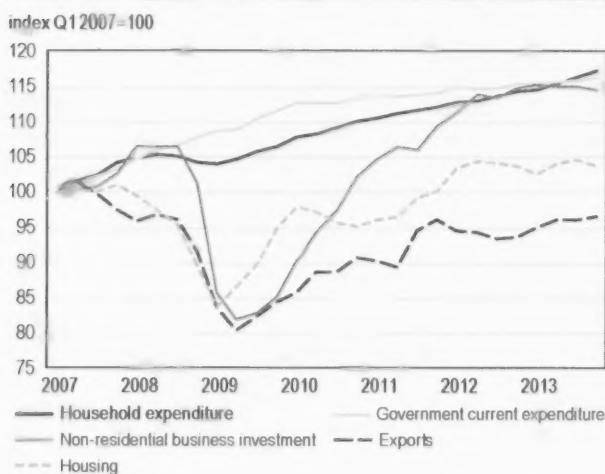
1. Half-year growth rates for quarterly data on expenditure-based GDP are calculated based on average GDP levels for half-year periods. For example, GDP growth in second half of 2013 is the percent difference between average GDP in second half of the year (based on data for the 3rd and 4th quarters), and average GDP in the first half (based on data for the 1st and 2nd quarters). Rates for specific quarters, when reported, are the percent change in GDP between the reference quarter and the previous quarter.



Exports contributed less to output growth in the second half of 2013, than in the first half. Exports of goods and services grew by 0.8% during this six-month period, down from 2.2% growth during the first half of the year.

For 2013 as a whole, overall GDP growth remained supported by household spending, which advanced at a slightly faster pace in 2013 (2.2%) than in 2012 (1.9%). Non-residential business investment slowed in 2013, as annual growth fell to 1.4% from 6.2% in 2012, down from double-digit annual growth observed in the wake of the recession. Export growth, at 2.1% in 2013, was up from 1.5% in 2012, on gains early in the year.

Chart 2
GDP, selected aggregates



Source: Statistics Canada, CANSIM table 380-0064.

Business sector labour productivity improved in every quarter of 2013, as increases in real output outpaced changes in hours worked. Productivity expanded by 1% in the fourth quarter as the 0.7% increase in real output coincided with a 0.2% decline in hours worked. This marked the largest quarterly increase in labour productivity since the first quarter of 2010. The quarter-to-quarter increases in 2013 contrast with the pattern observed in 2012 when labour productivity was flat or declined in all quarters.

Nominal GDP expanded by 1.8% in the second half of 2013, matching the rate of growth in the first half. GDP growth in the second half of the year, measured on an income basis, was led by third-quarter gains among corporations and fourth-quarter increases in employee compensation. The net operating surplus of corporations increased by 4.1% in the third quarter, and then declined by 0.4% in the fourth on lower margins

for financial corporations. The quarterly growth in wages and salaries increased from 0.7% in the third quarter to 1.1% in the fourth.

Industry output dampened by broad-based declines in December

Real GDP, measured on an industry basis, expanded 1.3% in the last six months of 2013, despite a broad-based 0.5% decline in December.² This was the largest half-year expansion since the end of 2011. Industrial production advanced by 2% in the second half, led by mining, oil and gas extraction and utilities. Manufacturing output was essentially flat for the year with gains in non-durable goods offset by declines in durable goods production. Similarly, construction output was flat or declined in eight out of twelve months in 2013. After large expansions during the first half of the year, agriculture and forestry output retreated at year end. Earlier gains were supported by a bumper canola crop and a pickup in the U.S. housing market.

Chart 3
GDP by industry



Source: Statistics Canada, CANSIM table 379-0031.

Among service industries, retail trade rose 0.8% during the last half of the year, about a third of its pace in the first half, as harsh winter weather was reported to have dampened demand in December. Professional and scientific services increased by 0.4% in the second half, after advancing 1% in the first. Accommodation and food services reported the first half-year decline since the last half of 2010. The public sector posted the largest half-year gain since the end of 2008, with steady increases in education, health and public administration.

² Half-year growth rates for data on GDP by industry are based on level comparisons from December 2012 to June 2013 (growth in the first-half of 2013) and June 2013 to December 2013 (growth in the second half). This is the convention followed for other monthly data in this article, unless otherwise noted.

Employment growth virtually stalls in late 2013

Employment growth virtually stalled in the last half of 2013, with employment increasing 20,000 on a net basis from July to December. This was the smallest half-year increase since outright job losses experienced early in 2009. All of the increase was in part-time positions, as full-time and self-employed positions gave back gains from earlier in the year. Private sector employment advanced in the second half after being flat in the first. The self-employed gave back jobs gained in the previous six-month period, while public sector employment declined by 30,000, following little change in the first half of 2013.

Chart 4
Type of employment

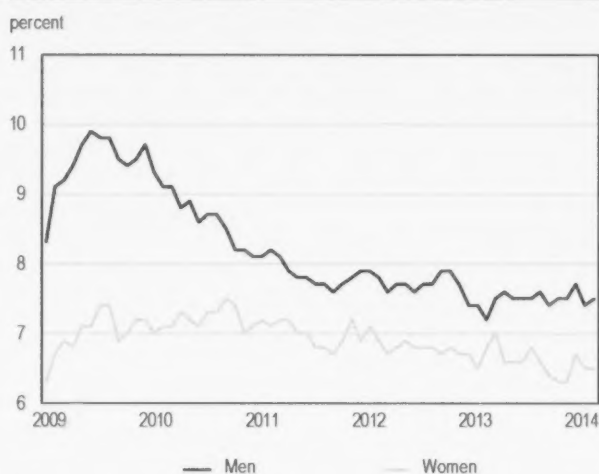


Source: Statistics Canada, CANSIM table 282-0087.

For 2013 as a whole, employment increased by almost 100,000, following a net gain of near 300,000 jobs in 2012. The unemployment rate ended the year at 7.2%, after declining to 6.9% in September and November, the lowest levels observed since the end of 2008.

Early in 2013, the gap between the unemployment rates for men and women dipped to 0.4 percentage points, the smallest difference since the autumn of 2007. By December, however, the unemployment rate for men was a full percentage point higher (7.7%) than the rate for women (6.7%). During the 2008/2009 recession, this gap had peaked at 2.8 percentage points with the unemployment rate among men near 10%.

Chart 5
Unemployment rates by sex



Source: Statistics Canada, CANSIM table 282-0087.

Among the provinces, Alberta posted the largest increases in employment in both the first and second halves of 2013, adding 68,000 jobs overall. For 2013 as a whole, employment was also up slightly in Saskatchewan, and was little changed elsewhere. Alberta maintained the highest average weekly earnings throughout 2013, over 20% above the national average.

Business investment slows in 2013

Non-residential business investment increased by 2.4% in 2013, down from 9.2% in 2012.³ Intentions for 2014 suggest an increase of 1.6%.

Business investment in non-residential structures advanced 4.1% in 2013, led by higher spending on utilities. Investment in machinery and equipment was little changed from 2012, as increases in agriculture and construction were offset by lower spending in mining, oil and gas.

Mining and oil and gas industries reported lower capital spending in 2013, down 1.3% from 2012 levels. This decline was led by a 13% reduction in machinery and equipment investment. Manufacturers in 2013 reported little change in capital outlays from the previous year. Investments in structural assets were down 4.9% from 2012 levels, while machinery and equipment spending rose 2.8%.

3. Data in this section are expressed in current dollars and based on annual estimates from the Capital and Repair Expenditures Survey. Business investment is defined as the sum of all private and public capital spending in business sector industries. Investment data for 2013 discussed in this article are preliminary actual estimates. For information, see <http://www.statcan.gc.ca/daily-quotidien/140226/tdq140226-eng.htm>.



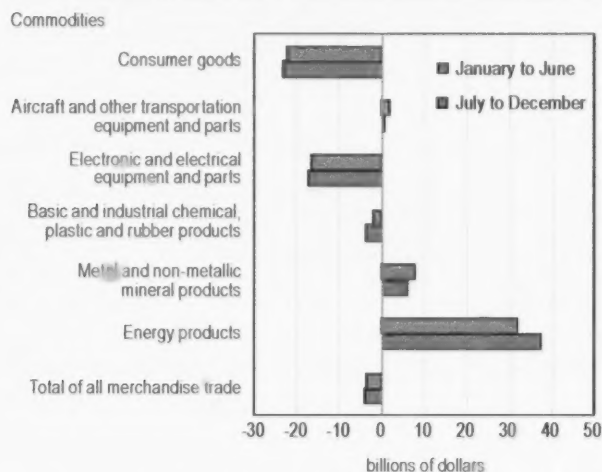
Trade deficits increase in late 2013

Canada's merchandise trade deficit, measured cumulatively over the last six months of 2013, stood at \$3.9 billion, up from \$3.5 billion in the first half of the year. Much of deficit in the second half occurred in the fourth quarter, as imports in the three months to December exceeded exports by \$2.7 billion.

The increase in the merchandise trade deficit during the second half of 2013 reflected larger trade deficits for basic and industrial chemicals, consumer goods, and electronic and electric products, along with smaller trade surpluses for aircraft products and transportation, and metals and non-metallic minerals.⁴ Energy products, led by crude and crude bitumen, recorded a \$5.6 billion larger trade surplus in the second half of the year, largely offsetting widening deficits in many non-energy categories.

Chart 6

Trade balances in 2013, selected commodities



Source: Statistics Canada, CANSIM table 228-0059

Exports advance on gains in energy

The total value of exports in the second half of 2013 was up 1.7% from the first half, on stronger growth in August, September and December.

Canada's two largest exports by major category—energy exports, and motor vehicles and parts—both saw higher exports during the second half of 2013. Exports of energy products slowed during the autumn on lower prices towards year end. Exports of motor vehicles and parts were up late in the year after a decline in October.

Exports of metal and non-metallic mineral products were 7.8% lower in the second half of 2013, on lower volumes and prices.

The total value of merchandise imports in the second half was 1.9% higher than during the first six months. At \$41.5 billion, imports in December reached a record high.

The terms of trade for merchandise products declined late in 2013, after remaining stable for much of the year. The price of exports relative to imports declined by 3.6% from October to December, led by lower export prices for crude oil and crude bitumen.

Manufacturing sales rebound in the second half of 2013

Manufacturing sales accelerated 1.8% during the second half of 2013, following a 0.3% increase during the first half. The growth in sales in the second half was the fastest half-year pace since the end of 2011, and reflected sustained monthly gains during the autumn months, prior to a 1.5% decline in December. At \$50.4 billion, monthly sales in 2013 peaked in November, the highest level since December 2011.

Sales of non-durable manufacturing industries grew by 2.9% in the second half of 2013, led by higher sales in food industries, which advanced about 10% in the two months to October, the largest two-month increase on record.

During the second half of 2013, sales of durable manufacturers increased by 0.8%, dampened by lower demand for transportation equipment, electronics and electrical equipment and appliances.

Retail sales advance despite declines at year end

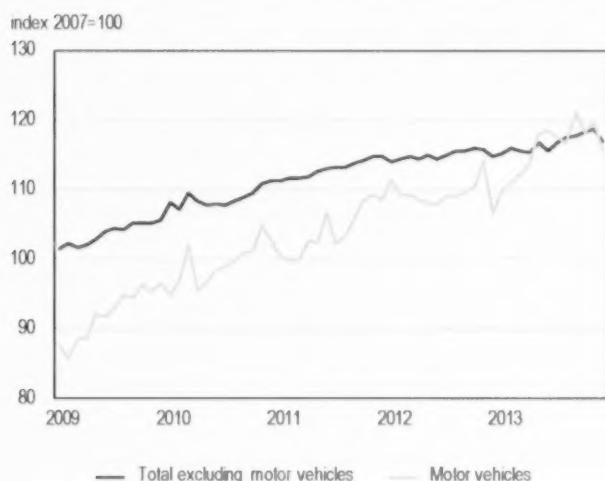
Household spending accelerated in the late summer months of 2013 before retreating in December. Retail sales rose 2.2% in the five months to November, led by spending on autos and gasoline. Sales fell 1.8% in December, as spending declined in nine of eleven subsectors. Lower demand for autos and building supplies led the retreat as harsh winter weather affected most

⁴ Commodities noted in this discussion of merchandise trade are defined at the section level (i.e., the two-digit level of the North American Product classification).



regions of the country. Despite December's decline, the annual pace of auto sales was the fastest in two years. Electronics and appliances gave back all of the earlier gains in October and November, while supermarket sales fell in four out of the last six months of the year. Conversely, gasoline receipts advanced in the second half as prices increased at the pump, while health and personal care continued to post steady gains. Despite a 2.2% decline in December, sales volumes rose 0.5% in the last half of 2013, compared to a 2.3% increase during the first half of the year.

Chart 7
Retail sales



Source: Statistics Canada, CANSIM table 080-0020

New housing moderates late in 2013

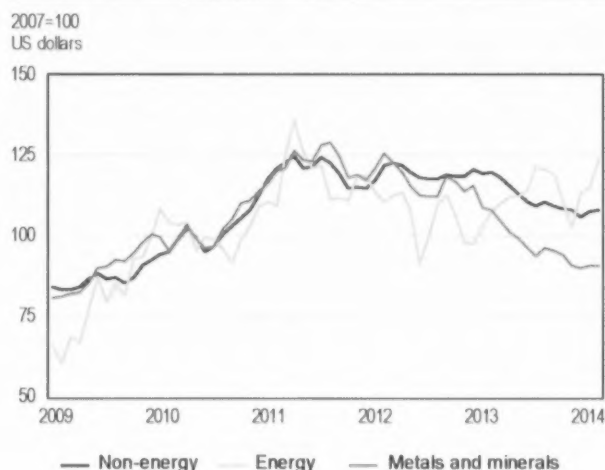
Following a slower start to 2013, housing starts accelerated slightly in the second half of the year. The average monthly pace in the first six months, at 180,000 units (seasonally adjusted at annual rates), was the slowest since the end of 2009. The pickup to a monthly average of 195,000 units in the second half of 2013 was tempered by slowdowns in August and December, particularly in ground-breaking on multiple-family homes. In comparison, monthly housing starts averaged 215,000 units in 2012.

Residential building permits retreated at year end, following several months of double-digit gains earlier in 2013. The year-over-year change in new house prices decelerated steadily in the last six months of the year to end December at 1.3%, the slowest pace in almost four years.

Commodity and raw materials prices rally at year end

Commodity prices rallied at the end of the year, supported by an increase in energy prices in December. Energy prices continued to increase early in 2014 and by February reached the highest level since mid-2011. Excluding energy, commodity prices fell in five of the last six months of 2013, and on a year-over-year basis retreated for the past eleven months. Metals and minerals prices were down in all but one month for the year as a whole, dampened by low prices for copper, aluminum, potash and gold, before a slight rally to start 2014. Agriculture prices declined in each month of the second half of 2013, partially offset by steady gains in fish and forestry with the latter benefitting from the recovery in the U.S. housing market.

Chart 8
Commodity price index



Source: Statistics Canada, CANSIM table 176-0075

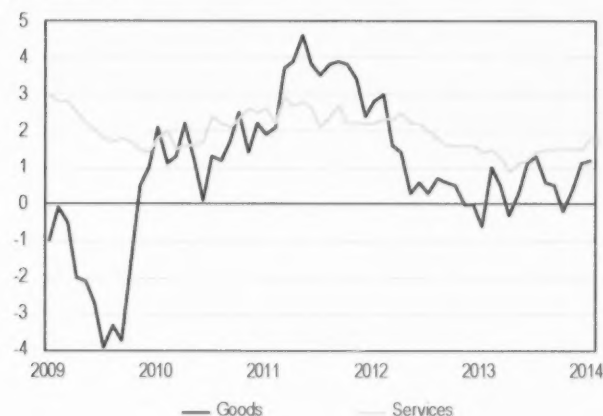
Consumer price inflation remains low

Monthly consumer prices, before adjusting for seasonality, were flat or falling in four out of the last six months of the year. In December, the year-over-year rate of inflation was 1.2%, marking the 20th consecutive month that the annual inflation rate was below the Bank of Canada's target rate of 2%, with most of the downward pressure coming from durable and semi-durable goods. Home entertainment equipment prices continued to decline, along with furniture, clothing and footwear. Excluding food and energy prices, the annual rate of inflation has been below 2% since mid-2011. In January 2014, the year-over-year rate of inflation edged up to 1.5%.



Chart 9
Consumer price index

year-over-year
percent change



Source: Statistics Canada, CANSIM table 326-0020

Elsewhere, health and personal care prices fell in each of the last six months of 2013 on a year-over-year basis. Mortgage interest costs declined to their lowest level since 2006, partially offsetting an increase in electricity prices.

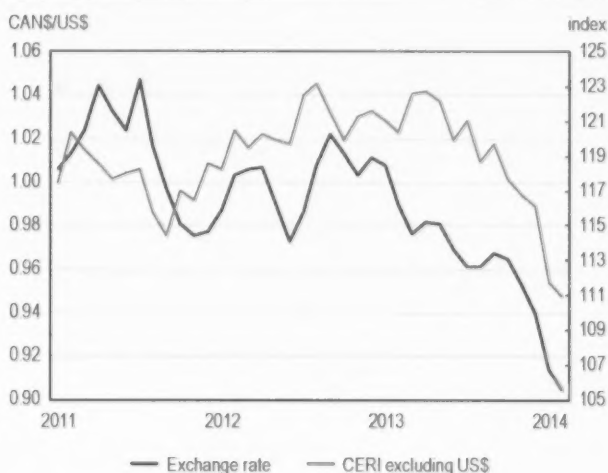
The average annual rate of inflation for 2013 was 0.9%, down from 1.5% in 2012 and 2.9% in 2011.⁵

Equities advance while the dollar depreciates

Toronto stock prices increased in the second half of 2013, posting a 12.3% gain, the largest half-year increase since the end of 2010. By year end, stock prices had recouped all of the losses of the previous two years, supported by gains in energy and financials. Metals and mining saw some recovery but still remained 20% below their recent peak to start the year. Gold prices continued their steady decline and by December had fallen to lows not seen in a decade, before recovering slightly early in 2014.

After starting 2013 at parity with the U.S. dollar, the Canadian dollar depreciated to 97 cents by June. It continued to fall through the second half of 2013, reaching 94 cents at year end. By February 2014, the dollar declined further to 91 cents, the lowest level since mid-2009. The Canadian dollar also depreciated against the currencies of other major trading partners, including the Euro and the British pound.

Chart 10
Exchange rate



Notes: CERI: Canadian dollar effective exchange rate index.

CAN\$/US\$ is based on the average noon spot rate.

CERI excluding US\$ is based on rates at month end.

Source: Statistics Canada, CANSIM table 176-0064, Bank of Canada

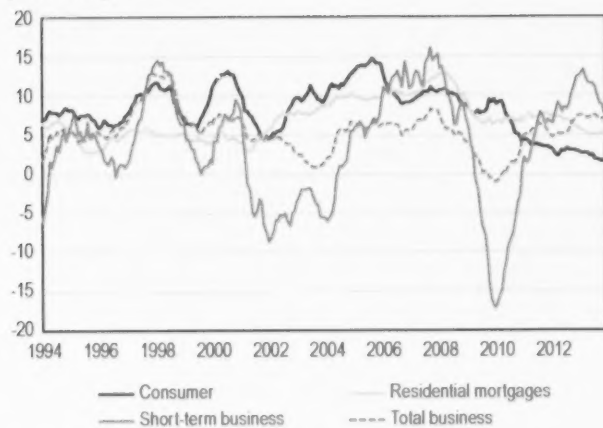
Households continued to moderate their use of credit. The 2.1% rise in total consumer credit in the last six months of the year was just above the pace of the previous six-month period and both were the smallest gains since the first half of 1995. Mortgage credit growth accelerated slightly to 2.6% from 2.4% in the first six months of 2013, which had been the slowest pace in twelve years. Growth in consumer credit at 0.9% in both the first and the second half of the year were the smallest increases in over two decades. Meanwhile, demand for total business credit accelerated in 2013, supported by a pickup in both bonds and equities, as short-term credit rose at the slowest pace in two years.

5. For more information, consult the *Consumer Price Index: Annual Review* at <http://www.statcan.gc.ca/daily-quotidien/140124/dq140124b-eng.htm>.



Chart 11
Credit

year-over-year
percent change



Source: Statistics Canada, CANSIM tables 176-0027, 176-0069, 176-0023.

